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INFO AMEMBASSY PANAMA
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TAGS: PTER, EPET, MASS, PREL, PGOV, EAID, SNAR, ASEC, CO
SUBJECT: ARAUCA OIL PRODUCTION -- KEY FACTS

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J OLSON
DATE/CASE ID: 02 JUL 2004 200303455

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SUMMARY

1. (U) THIS CABLE PROVIDES DETAILED INFORMATION REGARDING CANO LIMON OIL PRODUCTION, EARNINGS, EXPENDITURES, AND THE IMPACT OF THE ATTACKS ON THE PIPELINE, WHICH ORIGINATES IN ARAUCA DEPARTMENT (COLOMBIA'S NORTHEAST BORDER WITH VENEZUELA) AND EXTENDS TO THE CARIBBEAN PORT OF COVENAS IN SUCRE DEPARTMENT. THIS INFORMATION WAS COMPILED FROM RECENT INTERVIEWS WITH REPRESENTATIVES OF THE STATE-OWNED OIL COMPANY ECOPETROL AND OCCIDENTAL PETROLEUM CORPORATION (OXY), THE PRIMARY SHAREHOLDERS IN THE CANO LIMON OIL FIELD. ALL FIGURES ARE ESTIMATES, HAVE NOT BEEN ADJUSTED FOR PRESENT VALUE, AND COVER THE RANGE 1986-2001, EXCEPT WHERE NOTED. END SUMMARY.

PRODUCTION

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2. (U) LOCATION: THE CANO LIMON OIL FIELD IS LOCATED IN NORTHCENTRAL ARAUCA DEPARTMENT, STRADDLING COLOMBIA'S NORTHEAST BORDER WITH VENEZUELA. THE FIELD RUNS NORTH-SOUTH APPROXIMATELY 8,000 FEET BENEATH THE ARAUCA RIVER AND IS COVERED BY HOT AND HUMID FLATLANDS, WHICH, FOR THE MOST PART, ARE SPARSELY POPULATED BY SMALL-SCALE FARMERS AND RANCHERS WHO LACK ELECTRICAL, WATER, SANITATION, AND TRANSPORTATION INFRASTRUCTURE (REFTEL). THE CANO LIMON PRODUCTION FACILITY IS APPROXIMATELY 10 KILOMETERS FROM THE VENEZUELAN BORDER. FROM CANO LIMON, A PIPELINE CARRIES OIL NORTHWEST 770 KILOMETERS THROUGH BOYACA, NORTE DE SANTANDER, CESAR, MAGDALENA, AND BOLIVAR DEPARTMENTS TO THE CARIBBEAN PORT OF COVENAS IN SUCRE DEPARTMENT. IN SOME LOCATIONS OF ARAUCA, BOYACA, AND SANTANDER DEL NORTE, THE PIPELINE RUNS WITHIN 20 KILOMETERS OF THE VENEZUELAN BORDER.

3. (U) OWNERSHIP: OIL PRODUCTION IS CONDUCTED UNDER THE AUSPICES OF THE CRAVO NORTE ASSOCIATION (CNA), A FOR-PROFIT JOINT VENTURE BETWEEN ECOPETROL AND OXY. THE CNA OWNS THE PRODUCTION FACILITIES, PIPELINE, AND COVENAS TERMINAL. ACCORDING TO THE ASSOCIATION'S CONTRACT, OXY IS RESPONSIBLE FOR FIELD OPERATIONS, WHILE ECOPETROL OPERATES THE PIPELINE. THE CNA MEMBERSHIP IS BROKEN

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DOWN, AS FOLLOWS: 50 PERCENT ECOPETROL; 25 PERCENT
OXYCOL, WHICH IS 75 PERCENT OWNED BY OXY OIL AND GAS
CORPORATION (A WHOLLY OWNED SUBSIDIARY OF PARENT
CORPORATION OXY) AND 25 PERCENT BY SPANISH OIL CONCERN
REPSOL; AND, 25 PERCENT OXYANDINA, FORMERLY SHELL'S SHARE
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IN THE OPERATION, BUT NOW WHOLLY OWNED BY OXY OIL AND GAS
CORPORATION.

4. (U) EXTRACTION/PUMPING PROCESS: THOUSANDS OF WELLS
EXTRACT AND TRANSFER OIL FROM THE FIELD TO TWO PRODUCTION
FACILITIES LOCATED NEARBY. THE PRODUCTION FACILITIES
SEPARATE THE OIL FROM OTHER EXTRACTED LIQUIDS (PRIMARILY
WATER), TEMPORARILY STORING THE OIL IN LARGE CONTAINERS
UNTIL IT IS SENT TO THE PUMPING STATION FOR TRANSPORT
ALONG THE PIPELINE. THE CONTAINERS HAVE SEVEN DAYS OF
STORAGE CAPACITY, ALLOWING EXTRACTION TO CONTINUE, WHEN
AN ATTACK TEMPORARILY SUSPENDS PIPELINE OPERATIONS. THE
PIPELINE HAS A TOTAL CAPACITY OF 220,000 BARRELS PER DAY,
AND CURRENT SPARE CAPACITY OF 100,000 BARRELS PER DAY.
OTHER USERS OF THE PIPELINE INCLUDE "BRASPETRO," A
SUBSIDIARY OF THE BRAZILIAN PARASTATAL PETROBRAS, WHICH
SELLS APPROXIMATELY 1,000 BARRELS PER DAY TO THE CNA, AND
POTENTIALLY REPSOL, WHICH WOULD NEGOTIATE A PRICE TO
TRANSPORT ITS RECENT DISCOVERIES IN SOUTHWEST ARAUCA TO
COVENAS. [NOTE: THE OCENSA PIPELINE, APPROXIMATELY 250
KILOMETERS TO THE SOUTH IN CASANARE DEPARTMENT, IS THE

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SECDEF WASHDC
NSC WASHDC
DOJ WASHDC
DIRONDCP WASHDC
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JOINT STAFF WASHDC
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SUBJECT: ARAUCA OIL PRODUCTION -- KEY FACTS

NEXT CLOSEST PIPELINE TRAVELING TO COVENAS AND IS
PRIMARILY USED BY BP AMOCO. END NOTE.]

5. (U) STATISTICS: CANO LIMON HAS GENERATED 955 MILLION BARRELS OF OIL SINCE PRODUCTION BEGAN IN 1985, OR 17.4 PERCENT OF TOTAL NATIONAL OIL PRODUCTION FROM 1916-2001. DAILY AVERAGE PRODUCTION AT CANO LIMON HAS DRASTICALLY FALLEN FROM APPROXIMATELY 125,000 BARRELS PER DAY IN 1999 TO 99,000 IN 2000 AND 54,000 IN 2001, DUE PRIMARILY TO THE PIPELINE ATTACKS BUT ALSO TO THE NATURAL DECLINE IN RESERVES FROM THE AGING FIELD. [NOTE: POTENTIAL DAILY PRODUCTION DECLINED MARGINALLY FROM 130,000 BARRELS PER DAY TO 120,000 FROM 1999-2001. END NOTE.] ANNUAL PRODUCTION AT CANO LIMON IN 2001 WAS 19.5 MILLION BARRELS OR 8.9 PERCENT OF COLOMBIA'S ANNUAL OIL PRODUCTION IN 2001. OXY EXPECTS TO PRODUCE ROUGHLY 25.6 MILLION BARRELS IN 2002 (ASSUMING 40 PERCENT DOWNTIME DUE TO PIPELINE ATTACKS) AND 22.6 MILLION BARRELS IN 2005 (ASSUMING NO ATTACKS), WHICH IS ROUGHLY 13 PERCENT OF EXPECTED NATIONAL PRODUCTION FOR THOSE YEARS. PROVEN OIL RESERVES AT CANO LIMON AMOUNT TO AN ESTIMATED 170 MILLION

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BARRELS OR APPROXIMATELY 9.2 PERCENT OF COLOMBIA'S PROVEN
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OIL RESERVES. CANO LIMON'S OIL PRODUCTION POTENTIAL IS
ESTIMATED AT 300 MILLION BARRELS. ECOPETROL HAS SIGNED
485 EXPLORATION CONTRACTS THROUGHOUT COLOMBIA AS OF THE
END OF 2001, AND EXPECTS TO SIGN A MINIMUM OF 20 IN 2002.
OXY ESTIMATES AN ADDITIONAL 100 MILLION BARRELS OF OIL
EXISTS JUST OUTSIDE THE AREA OF ITS CONTRACTUAL RIGHTS.

6. (U) EXPORTS: CANO LIMON HAS EXPORTED AN ESTIMATED
500 MILLION BARRELS OF OIL TO THE UNITED STATES FROM
1986-2001. APPROXIMATELY 55 PERCENT OF OIL PRODUCED AT
CANO LIMON WAS EXPORTED TO THE UNITED STATES IN 2001.
NEARLY HALF OF COLOMBIA'S HYDROCARBON PRODUCTION
(PRIMARILY OIL) WAS EXPORTED TO THE UNITED STATES IN 2000
-- ESTIMATES FOR 2001 ARE NOT AVAILABLE. CANO LIMON
ACCOUNTED FOR 10 PERCENT OF COLOMBIA'S OIL EXPORTS AND
2.5 PERCENT OF TOTAL NATIONAL EXPORTS IN 2001, DOWN FROM
16 PERCENT AND 5 PERCENT IN 2000, RESPECTIVELY, DUE IN
LARGE PART TO THE HIGH INCIDENCE OF PIPELINE ATTACKS THAT
SUSPENDED PRODUCTION. HYDROCARBONS ACCOUNTED FOR 28.6
PERCENT OF COLOMBIA'S EXPORTS IN 2001, FALLING FROM 35.7
PERCENT IN 2000.

7. (U) EMPLOYMENT: ECOPETROL EMPLOYS 175 PEOPLE, OR
ROUGHLY 2 PERCENT OF ITS TOTAL WORK FORCE, AT THE CANO
LIMON FIELD OR ALONG THE PIPELINE, AND STATIONS 14
EMPLOYEES IN ARAUCA AT ANY GIVEN TIME. OXYCOL HAS 797
EMPLOYEES IN ARAUCA, OR ROUGHLY 80 PERCENT OF ITS TOTAL
WORK FORCE, COMPOSED OF 197 DIRECT HIRES AND 600
CONTRACTORS. ALTHOUGH OXY EMPLOYS SOME AMCITS, NONE ARE
STATIONED IN ARAUCA.

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EARNINGS

8. (U) CRAVO NORTE ASSOCIATION: THE CNA COLLECTS
REVENUES GENERATED BY CANO LIMON IN A JOINT ACCOUNT,
WHICH IS THEN DISBURSED TO ECOPETROL AND OXY ACCORDING TO
THEIR SHARES. ECOPETROL AND OXY RECEIVE 40 PERCENT OF
REVENUE, REPSOL RECEIVES 5 PERCENT, AND 20 PERCENT IS
DEDICATED TO ROYALTIES. TOTAL GROSS REVENUES PRODUCED BY
CANO LIMON FROM 1986-2001 AMOUNT TO APPROXIMATELY USD

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13.6 BILLION.

9. (U) ECOPETROL: ECOPETROL HAS RECEIVED APPROXIMATELY USD 5.8 BILLION IN GROSS REVENUE FROM OIL PRODUCTION AT CANO LIMON FROM 1986-2001, ACCOUNTING FOR ROUGHLY 12 PERCENT OF ECOPETROL'S TOTAL REVENUE OVER THE SAME PERIOD. ECOPETROL EARNED ROUGHLY USD 169 MILLION IN GROSS REVENUE FROM CANO LIMON IN 2001, FALLING FROM USD 400 MILLION IN 2000 AND 1999, RESPECTIVELY, AS A RESULT OF THE PIPELINE ATTACKS. ECOPETROL EXPECTS TO RECEIVE AN

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INFO AMEMBASSY PANAMA
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AMEMBASSY LIMA
AMEMBASSY MEXICO
SECDEF WASHDC
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SUBJECT: ARAUCA OIL PRODUCTION -- KEY FACTS

ESTIMATED USD 375 MILLION IN GROSS REVENUE FROM CANO LIMON IN 2002. ECOPETROL'S REVENUES ARE LOCATED IN BANK ACCOUNTS ABROAD DENOMINATED IN DOLLARS AND BANK ACCOUNTS IN BOGOTA DENOMINATED IN PESOS. ECOPETROL USES THE REVENUE FOR OPERATING COSTS, MATERIALS, INVESTMENT, AND REMITTANCES TO ITS OWNER, THE GOVERNMENT OF COLOMBIA.

10. (U) OXY: OXY HAS EARNED APPROXIMATELY USD 3.7 BILLION IN GROSS REVENUE FROM OIL PRODUCTION AT CANO LIMON FROM 1986-2001, RECEIVING ROUGHLY USD 162 MILLION IN 2001. ESTIMATES FOR 2002 ARE NOT AVAILABLE. OXY'S REVENUES ARE USED TO INVEST IN NEW OIL AND GAS PROJECTS, TO PAY DIVIDENDS TO SHAREHOLDERS, AND TO COVER COSTS, TAXES, AND INVESTMENTS IN COLOMBIA. [NOTE: OXY'S GROSS REVENUE DIFFERS FROM ECOPETROL BY APPROXIMATELY USD 2.1 BILLION FROM 1986-2001 BECAUSE CANO LIMON WAS PARTIALLY OWNED BY SHELL FROM 1988-1998. THE ROUGHLY USD 7 MILLION GAP IN REVENUES IN 2001 IS DUE TO DIFFERENCES IN SELLING PRICES. END NOTE.]

11. (U) ROYALTIES: TOTAL ROYALTIES (NATIONAL, DEPARTMENTAL, AND MUNICIPAL) GENERATED BY CANO LIMON
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AMOUNT TO NEARLY USD 2 BILLION FROM 1986-2001. NATIONAL ROYALTIES WERE ROUGHLY USD 771 MILLION FROM 1986-2001, DEPARTMENTAL ROYALTIES USD 941 MILLION, AND MUNICIPAL ROYALTIES USD 247.6 MILLION. ROYALTIES ARE ASSESSED IN BARRELS AT THE WELLHEAD AND AMOUNT TO 20 PERCENT OF EXTRACTED OIL. ROYALTIES ARE DISTRIBUTED AS FOLLOWS: 8 PERCENT TO A "NATIONAL ROYALTY FUND" AND 12 PERCENT TO THE REGION, WHICH IS FURTHER BROKEN DOWN BY 9.5 PERCENT TO ARAUCA DEPARTMENT AND 2.5 PERCENT TO THE MUNICIPALITIES OF ARAUCA AND ARAUQUITA.

12. (U) ECOPETROL PAYS ROYALTIES EVERY THREE MONTHS, ACCORDING TO AVERAGE BARREL PRICES CALCULATED BY THE MINISTRY OF ENERGY AND MINES, AND LATER TRANSPORTS AND SELLS THE ROYALTY BARRELS AT COVENAS TO COMPENSATE FOR THE OUTLAY. ECOPETROL AND OXY ESTIMATE THAT THE

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GUERRILLAS EXTORT ANYWHERE BETWEEN 10 AND 30 PERCENT OF ROYALTIES FROM DEPARTMENT AND MUNICIPAL OFFICIALS. [NOTE: SINCE ROYALTIES ARE COUNTED AT THE WELLHEAD, ATTACKS THAT SUSPEND PIPELINE OPERATIONS DO NOT EFFECT ROYALTIES. ROYALTY DISBURSEMENTS STOP ONLY WHEN EXTRACTION IS SUSPENDED, WHICH OCCURS IF STORAGE CAPACITY IS REACHED. END NOTE.]

13. (U) NATIONAL ROYALTIES RESIDE IN THE NATIONAL BUDGET IN BOGOTA, HAVING A DISTINCT LINE-ITEM REFERRED TO AS THE "NATIONAL ROYALTY FUND." THE "NATIONAL ROYALTY FUND" IS MANAGED BY A 13-MEMBER NATIONAL ROYALTY COMMISSION, WHICH IS A PART OF THE NATIONAL PLANNING DEPARTMENT (OMB-EQUIVALENT) AND MEETS MONTHLY TO REVIEW THE "NATIONAL ROYALTY FUND" BALANCES. COMMISSION MEMBERS INCLUDE THE

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NATIONAL PLANNING DEPARTMENT DIRECTOR; THE MINISTERS OF MINES AND ENERGY, TRANSPORTATION, ECONOMIC DEVELOPMENT, AND THE ENVIRONMENT; THE GOVERNORS OF SIX OIL PRODUCING DEPARTMENTS; THE MAYOR OF BOGOTA; AND, ONE REPRESENTATIVE OF MUNICIPALITIES WITH PORTS. THE "NATIONAL ROYALTY FUND" IS TARGETED TO PROMOTE MINING, PRESERVE THE ENVIRONMENT, AND FINANCE REGIONAL INVESTMENT IDENTIFIED AS PRIORITIES IN THE DEVELOPMENT PLANS OF THE REQUESTING REGIONS. ALL TERRITORIAL ENTITIES CAN REQUEST "NATIONAL ROYALTY FUNDS," INCLUDING DEPARTMENTS, MUNICIPALITIES, GOVERNMENT DEVELOPMENT FUNDS, AND REGIONAL DEVELOPMENT CORPORATIONS. THE MILITARY CANNOT DIRECTLY REQUEST "NATIONAL ROYALTY FUNDS."

14. (U) DEPARTMENTAL AND MUNICIPAL ROYALTIES ARE KEPT IN BANK ACCOUNTS IN THE CITIES OF ARAUCA (DEPARTMENTAL AND MUNICIPAL ROYALTIES) AND ARAUQUITA (MUNICIPAL ROYALTIES). THE GOVERNOR OF ARAUCA MANAGES THE DEPARTMENTAL ROYALTIES, AND THE ARAUCA AND ARAUQUITA MAYORS MANAGE THE MUNICIPAL ROYALTIES. THE NATIONAL ROYALTY COMMISSION OVERSEES BUDGETING AND EXPENDITURES, AND THE ARAUCA

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ASSEMBLY APPROVES BUDGETS SUBMITTED ANNUALLY BY THE GOVERNOR AND MAYORS. NINETY PERCENT OF DEPARTMENT ROYALTIES ARE TARGETED FOR SOCIAL INVESTMENT ACCORDING TO THE DEPARTMENT'S DEVELOPMENT PLAN, WITH HALF FOCUSED ON REDUCING INFANT MORTALITY AND IMPROVING SOCIAL INFRASTRUCTURE (HEALTH, EDUCATION, AND WATER RESOURCES) - THE REMAINING 10 PERCENT IS SPENT ON OVERSIGHT AND ADMINISTRATION OF THE 90 PERCENT. LIKE THE DEPARTMENTAL ROYALTIES, 90 PERCENT OF THE MUNICIPAL ROYALTIES ARE DEDICATED TO SOCIAL INVESTMENT ACCORDING TO THE MUNICIPALITY'S DEVELOPMENT PLAN, WITH THREE-QUARTERS

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TARGETED FOR CONSTRUCTION AND MAINTENANCE OF SOCIAL INFRASTRUCTURE -- THE REMAINING 10 PERCENT IS SPENT ON OVERSIGHT AND ADMINISTRATION OF THE 90 PERCENT.

EXPENDITURES

15. (U) CRAVO NORTE ASSOCIATION: THE CNA PAYS FOR PRODUCTION AND OPERATING EXPENSES, AS WELL AS FOR SOCIAL INVESTMENTS IN THE REGION AND ASSISTANCE TO THE COLOMBIAN
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MILITARY. EXPENSES ARE BILLED TO ECOPETROL AND OXY AT THE END OF THE MONTH ACCORDING TO THEIR SHARES. FIELD OPERATING COSTS, SOCIAL INVESTMENT AND MILITARY ASSISTANCE ARE EVENLY SPLIT, WHILE PIPELINE OPERATING COSTS ARE DIVIDED 60-40 BETWEEN ECOPETROL AND OXY. THE CNA FUNDS ARE BUDGETED ANNUALLY BY AN EXECUTIVE COMMITTEE, COMPOSED OF ONE REPRESENTATIVE OF ECOPETROL AND ONE FROM OXY, WHO HOLD MANAGERIAL POSITIONS IN EACH COMPANY, HAVE EQUAL VOTING RIGHTS, AND MAKE DECISION BY CONSENSUS. EMERGENCY FUNDS ARE AVAILABLE, BUT MUST BE LATER RATIFIED BY THE EXECUTIVE COMMITTEE. ECOPETROL AND OXY, ACTING AS CNA REPRESENTATIVES, MAY WITHDRAW ASSOCIATION FUNDS WITH THE APPROVAL OF THE EXECUTIVE COMMITTEE. THE CNA DOES NOT HAVE MEMBERSHIP FEES, BUT IF EXPLORATION BY OXY DISCOVERS OIL, ECOPETROL IS OBLIGATED TO REIMBURSE OXY FOR HALF OF THE EXPLORATION COSTS.

16. (U) SOCIAL INVESTMENT: THE CNA HAS PROVIDED APPROXIMATELY USD 40 MILLION FOR SOCIAL INVESTMENT IN ARAUCA DEPARTMENT FROM 1986-2001. THE CNA SPENT ROUGHLY USD 2.8 MILLION IN 2001, WITH AN ADDITIONAL USD 1.5 MILLION PROVIDED BY ECOPETROL. THE CNA EXPECTS TO CONTRIBUTE APPROXIMATELY USD 2 MILLION FOR SOCIAL INVESTMENT PROGRAMS IN 2002, WITH EXPECTED OUTLAYS OF USD 20 MILLION FROM 2002-2007. THE CNA SOCIAL INVESTMENT PROGRAMS FOCUS ON SOCIAL AND ECONOMIC DEVELOPMENT, SUCH AS SMALL INFRASTRUCTURE DEVELOPMENT, SMALL BUSINESS CREDIT, EDUCATION AND TRAINING, AND HEALTH AND MEDICAL SERVICE. THE CNA PROGRAMS HAVE BENEFITED AN ESTIMATED 20,000 ARAUCANS DIRECTLY AND 80,000 INDIRECTLY, OR 6.7 PERCENT AND 26.7 PERCENT OF THE DEPARTMENT'S RESIDENTS,
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RESPECTIVELY.

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17. (U) MILITARY ASSISTANCE: THE CNA HAS PROVIDED APPROXIMATELY USD 50 MILLION IN FINANCIAL OR IN-KIND ASSISTANCE TO THE COLOMBIAN MILITARY (COLMIL) FROM 1986-2001. ECOPETROL HAS "INSTITUTIONAL AGREEMENTS" DIRECTLY WITH THE COLMIL AND HAS PROVIDED ROUGHLY USD 149 MILLION IN ASSISTANCE FROM 1986-2001. OXY, WHICH DOES NOT HAVE DIRECT INSTITUTIONAL AGREEMENTS WITH THE COLMIL, CONTRIBUTED APPROXIMATELY USD 8.6 MILLION IN 2001 TO THE MILITARY VIA THE CNA. ALL ASSISTANCE PROVIDED BY THE CNA AND ECOPETROL TO THE COLMIL WAS NON-LETHAL, SUCH AS HOUSING, FOOD, LAND AND AIR TRANSPORTATION, COMMUNICATION EQUIPMENT, DEMINING EQUIPMENT, RECREATIONAL ACTIVITIES AND EQUIPMENT, GASOLINE, MEDICAL ASSISTANCE, AND ASSISTANCE TO THE RELATIVES OF KILLED OR WOUNDED SOLDIERS PROTECTING THE PIPELINE OR PRODUCTION FACILITIES. COLMIL UNITS THAT HAVE RECEIVED THE CNA'S ASSISTANCE INCLUDE THE ARAUCA-BASED 18TH BRIGADE, THE 2ND, 3RD AND 5TH MOBILE BRIGADES, THE COVENAS-BASED MARINE BATTALION, THE COLOMBIAN AIR FORCE, AND THE COLOMBIAN NATIONAL POLICE.

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INFO	LOG-00	MFA-00	NP-00	AID-00	ACQ-00	INL-00	DEAE-00
	SRPP-00	DS-00	EB-00	OIGO-00	FBIE-00	UTED-00	VC-00
	H-01	TEDE-00	INR-00	LAB-01	VCE-00	AC-01	NSAE-00
	OES-01	PM-00	ACE-00	SCT-00	IRM-00	SS-00	TEST-00
	ASDS-01	EPAE-00	PMB-00	DSCC-00	DRL-02	NFAT-00	SAS-00
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R 122127Z MAR 02
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 7410
INFO AMEMBASSY PANAMA
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY LIMA
AMEMBASSY MEXICO
SECDEF WASHDC
NSC WASHDC
DOJ WASHDC
DIRONDCP WASHDC
USCINCSO MIAMI FL
JOINT STAFF WASHDC

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USMILGP BOGOTA CO
USDAO BOGOTA CO
COMSOC SOUTH ROOSEVELT ROADS PR
CIA WASHDC
DOE HQS FORRESTAL BLDG WASHINGTON DC
AMCONSUL RECIFE

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TAGS: PTER, EPET, MASS, PREL, PGOV, EAID, SNAR, ASEC, CO
SUBJECT: ARAUCA OIL PRODUCTION -- KEY FACTS

[NOTE: THE 5TH MOBILE BRIGADE, WHICH HAD BEEN SCHEDULED TO ARRIVE IN SARAVERA (NORTHWEST ARAUCA DEPARTMENT) IN MARCH, WAS RECENTLY DIVERTED TO THE EX-DESPEJE (EX-DEMILITARIZED ZONE) TO SUPPORT ONGOING COLMIL OPERATIONS AND IS NOW TENTATIVELY SCHEDULED TO ARRIVE IN SARAVERA IN MAY. END NOTE.]

18. (U) OXY'S TRANSFERS: OXY HAS TRANSFERRED APPROXIMATELY USD 2.2 BILLION TO COLOMBIA FROM 1986-2001, AND ROUGHLY USD 110 MILLION IN 2001. TRANSFERS INCLUDED ROYALTIES, TAXES (INCOME, TRANSPORTATION, AND REMITTANCE), AND OBLIGATORY SPECIAL CONTRIBUTIONS OR "WAR TAXES," WHICH ARE A VARIABLE PERCENTAGE OF THE INCOME TAX (PEAKING AT 25 PERCENT FROM 1993 TO 1995). OXY'S NET REVENUE, THEREFORE, AMOUNTS TO APPROXIMATELY 15.4 PERCENT OF TOTAL GROSS REVENUE GENERATED BY CANO LIMON. [NOTE: COLOMBIA'S GDP RETAINS 84.6 PERCENT OF TOTAL GROSS REVENUE GENERATED BY CANO LIMON. END NOTE.]

IMPACT OF PIPELINE ATTACKS

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19. (U) ON GROSS DOMESTIC PRODUCT (GDP): THE 918 ATTACKS FROM 1986-2001, WHICH CAUSED THE PIPELINE TO SHUT DOWN FOR 1,228 DAYS, INHIBITED THE CREATION OF APPROXIMATELY USD 2.52 BILLION IN EXPECTED GDP GROWTH. IN 2001, THE 170 ATTACKS STOPPED PRODUCTION FOR 247 DAYS,

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IMPEDING GROWTH BY APPROXIMATELY USD 520 MILLION OR NEARLY 0.6 PERCENT OF GDP. [NOTE: THE PIPELINE HAS BEEN ATTACKED 17 TIMES IN 2002, TOTALING 935 SINCE 1986. END NOTE.]

20. (U) ON ROYALTIES: THE PIPELINE ATTACKS FROM 1986-2001 INHIBITED THE CREATION OF APPROXIMATELY USD 287 MILLION IN NATIONAL, DEPARTMENTAL, AND MUNICIPAL ROYALTIES. IN 2001, PIPELINE ATTACKS CAUSED LOSSES TO THE "NATIONAL ROYALTY FUND" OF APPROXIMATELY USD 32.6 MILLION, TO ARAUCA DEPARTMENT OF NEARLY USD 38.7 MILLION, AND TO THE MUNICIPALITIES OF ROUGHLY USD 10.2 MILLION.

21. (U) ON REVENUE: ECOPETROL LOST APPROXIMATELY USD 1 BILLION IN EXPECTED GROSS REVENUE BECAUSE OF THE PIPELINE ATTACKS FROM 1986-2001, WITH NEARLY USD 300 MILLION LOST IN 2001. OXY LOST NEARLY USD 448.8 MILLION IN EXPECTED INCOME FROM 1986-2001, AMOUNTING TO ROUGHLY USD 86.7 MILLION IN 2001. COSTS RELATED TO THE PIPELINE ATTACKS, INCLUDING REPAIRS, ACTIVATION OF ENVIRONMENTAL CONTINGENCY PLANS, AND OIL SPILLED, WHICH WERE PAID BY THE CNA AMOUNTED TO ROUGHLY 16.6 MILLION IN 2001, TOTALING 152 MILLION FROM 1986-2001. [NOTE: "ACTIVATION OF ENVIRONMENTAL CONTINGENCY PLANS" MEANS ALERTING LOCAL AND REGIONAL GOVERNMENT AGENCIES AND NON-GOVERNMENT

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INSTITUTIONS OF THE POSSIBLE ENVIRONMENTAL IMPACT OF ATTACKS. CONTAMINATION AND CLEAN-UP ARE NOT INCLUDED IN THE COSTS. END NOTE.]

22. (U) ON THE ENVIRONMENT: THE PIPELINE ATTACKS HAVE CAUSED ROUGHLY 55,000 BARRELS OF OIL TO BE SPILLED IN 2002, AMOUNTING TO APPROXIMATELY 2.9 MILLION BARRELS SINCE 1986. ROUGHLY USD 100 MILLION HAS BEEN SPENT ON REPAIRS AND ACTIVATION OF ENVIRONMENTAL CONTINGENCY PLANS FROM 1986-2001. [NOTE: THE "EXXON VALDEZ" SPILL WAS 11 MILLION GALLONS, ACCORDING TO THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY. SINCE THERE ARE APPROXIMATELY 42 GALLONS IN A BARREL, MULTIPLYING 2.9 MILLION BARRELS SPILLED BY 42 EQUALS ROUGHLY 121.8 MILLION GALLONS OR NEARLY 11 TIMES THE SIZE OF THE "EXXON VALDEZ" SPILLED. END NOTE.]

23. (U) ON EMPLOYMENT: THE PIPELINE ATTACKS CAUSED OXY TO DECLARE "FORCE MAJEURE" TWICE IN 2001 (FEBRUARY 21-JULY 21 AND OCTOBER 8-DECEMBER 8) AND ONCE IN 2002 (JANUARY 19-FEBRUARY 10). DURING THESE TIMES, NEARLY 800

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	ASDS-01	EPAE-00	PMB-00	DSCC-00	DRL-02	NFAT-00	SAS-00
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SUBJECT: ARAUCA OIL PRODUCTION -- KEY FACTS

OXY WORKERS AND CONTRACTORS IN ARAUCA DID NOT RECEIVE
SALARIES, WHICH HAD A CONSIDERABLE IMPACT ON LOCAL

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BUSINESSES. [NOTE: "FORCE MAJEURE" IS AN UNFORESEEN AND
DISRUPTIVE EVENT OR SERIES OF EVENTS THAT JUSTIFY A
PARTY'S FAILURE TO MEET CONTRACTUAL OBLIGATIONS,
INCLUDING DELIVERY OF CONTRACTED GOODS AND PAYMENT OF
WORKER SALARIES. END NOTE.]

COMMENT

24. (U) CANO LIMON IS A KEY ECONOMIC PILLAR FOR COLOMBIA
AND ARAUCA DEPARTMENT. THE PIPELINE ATTACKS HAVE CAUSED
SIGNIFICANT LOSSES TO COLOMBIA'S STRUGGLING ECONOMY AND
CONSIDERABLE DAMAGE TO THE ENVIRONMENT -- COLOMBIA IS
CONSIDERED THE SECOND MOST BIOLOGICALLY DIVERSE COUNTRY
IN THE WORLD. MORE IMPORTANTLY, THE LOCAL RESIDENTS
CONTINUE TO SUFFER UNDER THE PRESENCE OF THE GUERRILLAS,
THE RECENT ARRIVAL OF THE PARAMILITARIES, YEARS OF
NEGLECT FROM THE CENTRAL GOVERNMENT, AND NEAR TOTAL
COLLAPSE OF THE REGION'S POLITICAL, SOCIAL, AND ECONOMIC
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